

Message Text

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ACTION SS-25

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C O N F I D E N T I A L LIMA 2866

EXDIS

E.O. 11652: GDS
TAGS: EFIN PE
SUBJECT: PERU'S FINANCIAL CRISIS

REF: (A) LIMA 2617, (B) STATE 83825, (C) LIMA 2703, (D) LIMA 2715

1. SUMMARY: CABINET DISUCSSIONS LATE LAST WEEK ON NEW PACKAGE OF AUSTERITY MEASURES MET RESISTENCE LED BY MINISTER IBANEZ AND RESULT WAS IMPASSE. COUNCIL OF MINISTERS MEETING TODAY (APRIL 4) AMIDST GREAT UNCERTAINTY CONCERNING FUTURE OF ECONOMIC MEASURES PROMISED TO INTERNATIONAL BANKERS BY PRESIDENT MORALES BERMUDEZ (REF A). IT APPEARS THAT FOREIGN MINISTER DE LA PUENTE AND FINANCE MINISTER SAENZ MAY FLY TO WASHINGTON (AND POSSIBLY NEW YORK) ATER THIS WEEK TO OUTLINE NEW GOP AUSTERITY MEASURES TO IMF AND PERHAPS TO STERRING COMMITTEE, BUT IT IS STILL UNCERTAIN WHETEHR SUCH MEASURES (BUDGET CUTS, POSSIBLE INCREASES IN GASOLINE PRICES AND FREER FLOATING SOL WILL BE ANNOUNCED BEFORE THEIR TRIP. MEANWHILE, PRIBATE PERUBIAN BANKERS ARE OUTRAGED BY NEW CENTRAL BANK MEASURE INCREASING BY 10 PERCENT (TO UP TO 60 PERCENT) THE AMOUNT WITHHELD FROM SPOT FOREIGN EXCHANGE TRENSACTIONS. BANKERS HERECLAIO THAT THIS WILL PUSH THEM TO BRINK OF OUTRIGHT DEFAULT, AND WERE NOT ASSUAGED BY CNETRAL BANK PRESIDENT DE LA MELENA'S PRIVATE PLEA THAT THIS NEW MEASURE NECESSARY
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TO PREVENT GOP DEFAULT. END SUMMARY.

2. LAST WEEK WAS MARKED BY SEVERAL MEETING S OF THE COUNCIL OF MINISTERS DURNG WHICH PRESIDENT REPORTEDLY, AND UNSUCCESSFULLY, ATTEMPTED TO SELL NEW AUSTERITY MEASURES TO A RELUCTANT CABINET. OPPOSITION IS GENERALLY BELIEVED TO HAVE BEEN LED BY MINISTER OF

INDUSTRY, COMMERCE, TOURISM AND INTEGRATION GENRAL
GASTON IBANEZ O'BRIEN, WHO REPORTEDLY OPPOSES BENDING
FURTHER TO IMF STANDBY CONDITIONS. THUS, THERE IS
GREAT INCERTAINTY IN LIMA TODAY (APRIL 4) AS THE
COUNCIL OF MINISTERS MEETS ONCE AGAIN, REPREDLY TO
APPROVE INSTRUCTIONS FOR THE FOREIGN MINISTER AND
MINISTER OF ECONOMY AND FIANCE TO VISIT WASHINGTON
AND PERHAPS NEW YORK LATER THIS WEEK TO PRIVIDE IMF
AND OTHERS WITH THE LATEST INFORMATION ON ECONOMIC
MEASURES BEING UNDETAKEN BY GOP TO MEET CURRENT
FINANCIAL CRISIS. WE HEARD FROM AMBASSADOR GARCIA BEDOYA YESTERDAY
THAT A HIGH LEVEL MISSION WAS IN PREPARATION. OUR CONTACTS IN THE
FINANCIAL COMMUNITY NOW REPORT THAT THE TWO MINSTERS WILL HAVE AS
THEIR PRIMARY PURPOSE ATTEMPTING TO WREST A WAIVER FROM
THE IMF TO PERMIT THE DISBURSEMENT OF THE SECOND
TRANCHE OF THE STANDYBY. IT IS POSSIBLE THAT THEY MAY
ALSO VISIT WITH THE STEERING COMMITEE IN NEW YORK AND
MAY SOLICITI A MEETING WITH TREASURY/STATE OFFICIALS
WHILE IN WASHINGTON.

3. IN COMMENTING ON THE COUNCIL OF MINISTER'S MEETING
TODAY, ONE PERUVIAN BANKER POINTED OUT AS SIGNIFICANT
ABSENCE FROM THE COUNCIL OF GENRAL IBANEZ, WO IS
IN CRACAS ATTENDING A SELA MEETING. THE THOUGHT IS
THAT WITH IBANEZ OUT OF THE WAY (AND IN A POSITION
SUBSEQUENTLY TO WASH HIS HANDS OF THE AFFAIR) IT MAY
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BE POSSIBLE FOR THE CABINET TO AGREE ON A NEW
ECONOMIC PROGRAM ALONG THE LINES OF LIMA 2500.

4. COMMENTS ON THE RUMORED VISIT BY THE TWO MINISTERS
INCLUDE CONCERN EXPRESSED BY ONE CONSERVATIVE PERUVIAN
BANKER THAT THE MINISTERIAL TRIP MAY BE PREMATURE SINCE
THE GOP DOES NOT YET HAVE THE BENEFIT OF THE ADVICE TO
BE PROFERRED BY DUTCH EX-MINISTER DUISENBERG, IN LIMA
WITH A TECHNICAL TEAM TO ADVISE ON POSSIBLE SHORT AND
MEDIUM TERM ASPECTS OF THE ECONOMIC CRISI. (WE
UNDERSTAND DUISENBERG WILL GIVE HIS ASSESSMENT
DIRECTLY TO THE PRESIDENT ON ABOUT APRIL 13.)
BANKERS HERE REPORT THAT DUEISENBERT IS PRIMARILY
CONCERNED WITH THE SCHEDULE OF MATURITIES AND MAY
WELL END UP ADVISING SOME SORT OF PARIS CLUB
ARRANGMENET FOR A GENERAL RESCHEDULING.

5. BUT THE MOST PRESSING CONCERN OF PRIVATE SECTOR
BANKERS HERE IS THE DECISION ANNOUNCED APRIL 3 BY THE
CENTRAL BANK TO INCRESE FROM 35 TO 45 PERCENT THE
AMOUNTS PURCHASED BY THE GOP FROM SPOT (EXPORT-
GENERATED) TRANACTIONS ON THE DAILY FOREIGN EXCHANGE

MARKET.(THIS IS IN ADDITION TO THE UP TO 15 PERCENT
RETAINED FOR EXPORT TAXES, OR A TOTAL OF UP TO 60
PERCENT). THIS MOVE WILL, ACCORDING TO ONE BANKER,
DRIVE THE PRIVATE SECTOR BANKING COMMUNITY TO THE
VERGE OF DEFAULT. BANKERS WERE TOTALLY UNCONVINCED
WHEN CENTRAL BANK PRESIDENT DE LA MELENA EXPLAINED
TO THEM LAST NIGHT THAT THE MOVE WAS NECESSARY TO PREVENT
THE GOP FROM DEAULTING ON ITS OWN FOREIGN OBLIGATIONS.
"HE DOESN'T SEEM TO REALIZE, ONE BANKER TOLD US, "THAT
IF THE PRIVATE SECTOR BANKS HERE DEFAULT AS A DIRECT
RESULT OF STRANGULATION BY THE CENTRAL BANK, THIS IS
TANTAMOUNT IN THE INTERNATIONAL BANKING COMMUNITY TO A
DEAFULT BY THE GOVERNMENT OF PERU ITSELF."

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6. MEANWHILE WE CONTINUE TO HEAR REPORTS THAT
MORE AND MORE U.S. REGIONAL BANKS ARE NOT RENEWING
SHORT TERM CREDIT LINES, IN PART BECAUSE OF THE NON-
AVAILABILITY OF EXIMBANK PARTICIPATION AND FCIA
INSURANCE. PRIVATE BANKERS ARE THUS BECOMING MORE AND
MORE DESPERATE, AND AT LEAST ONE OF THEM HAS TOLD US
THAT, EXCEPT FOR THE GOOD-WILL OF KEY U.S. CREDITORS,
THEY WOULD BE IN DEFAULT TODAY.
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